



**An Examination of
Community
Laboratory Services
(Contract with DynaLIFE)**

Alberta Health Services and
Health



Brandon Lundy, MLA
Chair
Standing Committee on Legislative Offices

On behalf of my office, I am transmitting *An Examination of Community Laboratory Services (Contract with DynaLIFE)* report to the Members of the Legislative Assembly of Alberta, under the *Auditor General Act*.



W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General of Alberta

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Appointed under *Alberta's Auditor General Act*, the Auditor General is the legislated auditor of every provincial ministry, department, and most provincial agencies, boards, commissions, and regulated funds. The audits conducted by the Office of the Auditor General report on how government is managing its responsibilities and the province's resources. Through our audit reports, we provide independent assurance to the 87 Members of the Legislative Assembly of Alberta, and the people of Alberta, that public money is spent properly and provides value.

Executive Summary

Examination Overview

In late 2019, Alberta Health Services (AHS) began the process to outsource community laboratory services for the provincial healthcare system. This led to a \$4.8 billion contract signed with DynaLIFE Dx (DynaLIFE) in May 2022, with service delivery scheduled to begin in December 2022. Eight months later, in August 2023, AHS terminated the agreement at the request of DynaLIFE's owners.

Given the significance of public funding involved and numerous inquiries from Albertans, we initiated an examination of procurement processes—including initiation, monitoring, and termination—related to this contract with DynaLIFE. This examination was conducted under the authority of the *Auditor General Act*.

The focus of this examination is on AHS's processes for awarding and managing the contract with DynaLIFE—from the initial decision to outsource in 2019 to the contract's early termination in 2023. Given the history of significant changes to the delivery model for community laboratory services, we also examined non-value-added costs that did not contribute to improved service delivery, dating back to 2013.

Note to reader: Our findings are based on the organizational structures that were in place at the time of our work.

Access to Information Challenges by the Auditor General

This examination was conducted under the authority of the [Auditor General Act](#).

The *Auditor General Act* gives the Auditor General the authority to obtain evidence that relates to the subject of an examination (section 14—Access to Information), including the authority to compel testimony and evidence (section 14.1—Evidence Under Oath)—which we did in this examination. Our access to information was restricted by AHS and this restriction was supported by the Department of Health. AHS did the following:

- Claimed legal and Cabinet privilege over a wide range of documents without, in some instances, clear rationale or evidence of why documents were deemed privileged.
- Created a process where a team of lawyers conducted a line-by-line review of the over ten thousand documents prior to being provided to us.
- Limited our access to documentation, with large sections of thousands of documents redacted—despite assurances from previous leadership (AHS executives and the AHS Official Administrator) at the outset of the examination that all requested information would be provided.

Some of the key individuals involved in governance and management roles during the DynaLIFE procurement initially refused or were reluctant to participate in our examination. Eventually, all those who received notice under section 14.1 requesting an interview under oath complied.

Records were password protected and inaccessible, missing, or destroyed when key staff were terminated—up to and including the AHS Chief Executive Officer (CEO), who had left prior to 2024. The CEO surrendered notebooks of handwritten notes to AHS upon departure. AHS later stated that the notebooks were destroyed, despite our request to preserve evidence.

Overall, the above delays and restrictions added significant time to our examination. While we received a considerable amount of information, it is important and necessary to emphasize that we did not receive all the relevant information we requested and cannot be certain we had access to all pertinent information.

Scope Limitation

At the outset of this examination, we requested a range of documentation and information that we considered relevant to fully assess and support our work. However, due to reasons mentioned in the previous section, documents were either not provided or were heavily redacted. While verbal explanations and alternative sources helped bridge some gaps, we cannot determine the full extent to which the absence of this information may have impacted our findings or conclusions.

This constitutes a scope limitation. The nature and impact of this limitation are indeterminate, as we do not know what information was withheld or how it might have influenced our analysis.

We report instances where we did not receive information to the Legislative Assembly, pursuant to the *Auditor General Act*.

What We Looked At

The scope of this examination includes the following areas:

Governance and Accountability

Were governance structures in place and followed to ensure accountability, transparency, and strategic alignment?

Procurement Initiation

Was sufficient analysis or a business case completed prior to outsourcing community laboratory services?

Request for Proposal

Was a well-designed and operating Request for Proposal (RFP) process used to ensure a fair, competitive, and transparent provider selection?

Due Diligence

Was sufficient due diligence conducted to assess the financial and operational capabilities of the provider prior to selection?

Negotiation

Were negotiations used to manage risks and ensure clear, binding service terms?

Transition and Contract Monitoring

Was an appropriate transition plan in place and effectively implemented? Did AHS effectively monitor the performance of outsourced community laboratory services? How did AHS respond to situations where performance expectations were not met?

Termination

What were the circumstances that led to early termination? Was the termination carried out in accordance with contract terms and conditions?

Cost to Alberta Taxpayers

What non-value-added costs were associated with this most recent community laboratory services procurement and its early termination? What non-value-added costs have been incurred since the last attempted procurement in 2013?

Key Findings

Our findings identified persistent issues across governance and oversight, financial management, and procurement. These issues contributed to non-value-add expenditure of taxpayer dollars, disrupted services, and adverse impacts on patients and staff. Based on sworn testimony and a comprehensive examination of internal documents and communications, we identified notable breakdowns in due diligence, risk assessment, and financial analysis.

- **Governance and Accountability**

- Minister and Department of Health involvement in AHS operational matters undermined the integrity of the governance framework and compromised organizational autonomy.
- Evidence demonstrated that the Minister and the Department of Health expected AHS to proceed with community laboratory services outsourcing even as concerns about cost savings, COVID-19 pressures, and only having one proponent were raised by AHS.
- Minimal records were kept of important discussions between AHS executives, the Minister and the Department of Health—including those where key decisions were made.
- The AHS Board was not directly involved in the strategic decision to outsource community laboratory services. However, AHS management kept the Board informed and the Board provided guidance and approvals during key stages of the procurement process.
- AHS staff reported feeling discouraged from voicing concerns with the department due to fear of repercussions which strained relationships between AHS and the Department of Health.

- **Procurement Initiation**

- The Minister and the Department of Health directed AHS to implement a plan for private delivery of community laboratory services across Alberta.
- Neither AHS, nor the Department of Health, followed its own processes to prepare a business case for outsourcing community laboratory services.
- Although cost savings was the primary objective for outsourcing community laboratory services, calculation errors and subsequent financial analysis indicated most of the estimated forecasted savings may not be realized.

- **Request for Proposal**

- The RFP document met the standards set out in AHS internal procurement policy and the Government of Alberta's Procurement Accountability Framework.
- The RFP was not re-evaluated despite significant risks, including the pressures of COVID-19 and the fact that only one proponent remained in the competitive process.

- **Due Diligence**

- AHS continued with the procurement despite knowing that the main objective of cost savings was likely unattainable.
- AHS did not evaluate the assumptions and accuracy of DynaLIFE's financial proposals.
- AHS risk assessments lacked depth and detail and were not updated as the procurement process progressed.

- **Negotiation**
 - AHS management and the AHS Board did not complete or approve the negotiation plan, and the draft that was prepared remained incomplete.
 - Responsibility for the pension plan of Alberta Precision Laboratories (APL) employees transferring to DynaLIFE remained unresolved during negotiations, which further reduced anticipated cost savings.
 - The Alberta Labour Relations Board ruled that DynaLIFE must comply with existing collective agreements, resulting in higher costs.
- **Transition and Contract Monitoring**
 - AHS management and DynaLIFE proceeded with the transition despite essential requirements—such as Lab Information System readiness—being incomplete.
 - AHS management and DynaLIFE did not share key operational plans during the transition, which contributed to increased wait times and diagnostic errors.
 - Performance issues—such as an above average number of errors in pathology results—compromised patients.
 - AHS management progressively increased its oversight and intervention efforts in response to ongoing performance issues with DynaLIFE.
 - Frequent changes to Alberta’s community laboratory services model created operational challenges and impacted staff engagement without achieving sustained improvements.
- **Termination**
 - As performance declined, DynaLIFE sought additional funding, but AHS required service improvements before approving further payments.
 - DynaLIFE requested early termination of the contract.
 - AHS management and DynaLIFE followed the transition-back agreement and AHS stabilized laboratory operations after resuming control in September 2023.
- **Cost to Alberta Taxpayers**
 - Between 2013 and 2023, Alberta taxpayers paid \$125 million in non-value-added costs for government-initiated laboratory procurements that were abandoned or unsuccessful. This includes:
 - \$77 million for the outsourcing of community laboratory services (2019–2023)
 - \$13 million for the outsourcing of community laboratory services for Northern Alberta and its subsequent cancellation (2013–2015)
 - \$35 million for the procurement of the central hub lab construction and its subsequent cancellation (2015–2019)
 - In addition, \$32 million was paid by AHS to acquire DynaLIFE’s remaining assets and liabilities at fair value following the termination of its contract (2023).

Why Our Findings Matter to Albertans

Decisions about how public funds are spent on health care can have far-reaching consequences. When procurement processes are guided by evidence and strong governance, they protect taxpayer dollars and ensure services meet the needs of Albertans.

Albertans expect their government to make decisions that are transparent, accountable, and grounded in evidence. Procurement is no exception. When established frameworks are not followed, it can become unpredictable and expensive, with decisions made without the necessary checks and balances. In this case, the government did not follow its own procurement frameworks—the very processes designed to safeguard public resources and ensure value for money.

A business case is a cornerstone of responsible procurement. It typically includes an analysis of projected cost savings, impacts on quality care, risks to service continuity, and alignment with user needs and strategic goals. It helps decision-makers evaluate alternatives, justify the preferred option, and ensure transparency and accountability.

Without it, Albertans are left without assurance that public resources are being used wisely or that services will meet their needs.

Recommendations

- We recommend that the Department of Hospital and Surgical Health Services and the Department of Primary and Preventative Health Services ensure their own procurement processes, and those of their reporting entities, are followed, specifically that an analysis is conducted and retained to support the expenditure of public money prior to proceeding with major procurements.
- We recommend that the Department of Hospital and Surgical Health Services and the Department of Primary and Preventative Health Services ensure their records management processes document all key decisions, directions, and recommendations—including who made them and rationale. The departments should ensure the same standards are met for their various reporting entities.

Examination Context: Key Organizations, Roles, and Approach

Organizations Involved

Department of Health	Government body that sets the policy and standards for the provincial health system.
Alberta Health Services (AHS)	Provincial health authority responsible for delivering health services across the province. AHS is accountable to the Minister of Health.
DynaLIFE	Private Canadian company which has provided community laboratory services in Alberta for decades, particularly in Edmonton and northern regions.
Alberta Precision Laboratories (APL)	A wholly owned subsidiary of AHS that provides laboratory services provincewide, supporting both hospital and community-based health care.

Examination Approach: How We Conducted Our Work

As part of our examination, we gathered and analyzed over ten thousand documents and email communications.

To complete our examination, our interviews included testimony gathered under oath pursuant to section 14.1 of the *Auditor General Act*.

We interviewed key individuals, including:

- former members of the AHS Board of Directors and the former Official Administrator
- current and former executives and employees of AHS, Alberta Precision Laboratories, the Department of Health, and DynaLIFE
- former Ministers of Health

In addition, we conducted a detailed analysis of the direct and indirect costs of community laboratory services procurements since 2013.

Background and Context

Community Laboratory Services

Community laboratories are a vital part of modern health care. They collect samples and run tests to help healthcare providers diagnose, monitor, and treat medical conditions for their patients. Laboratories help Albertans and their healthcare providers detect and manage a wide range of health conditions, providing tests ranging from annual preventative checks to intensive tests that are key to identifying diseases like cancer.

Community laboratories are distinct from other types of medical laboratories¹ in that community laboratories focus on low complexity, high volume testing for people not receiving treatment in a hospital. They are typically found in local clinics or health centres, allowing convenient access to the patients they serve. As a result, about two-thirds of all medical laboratory work in Alberta takes place at community laboratories. The role of community laboratories makes them an integral part of modern healthcare services—improving timely patient care, enhancing patient outcomes, and achieving cost savings to the broader health system.

Most community laboratory costs stem from staffing, supplies, and equipment—together they account for about five per cent of total healthcare spending.

Service Models

The delivery of community laboratory services varies. In Canada, three service delivery models are common:

Private Model

Private providers are contracted to provide community laboratory services.

Public Model

Community laboratory services are provided by laboratories that are owned and operated by a government.

Hybrid Model

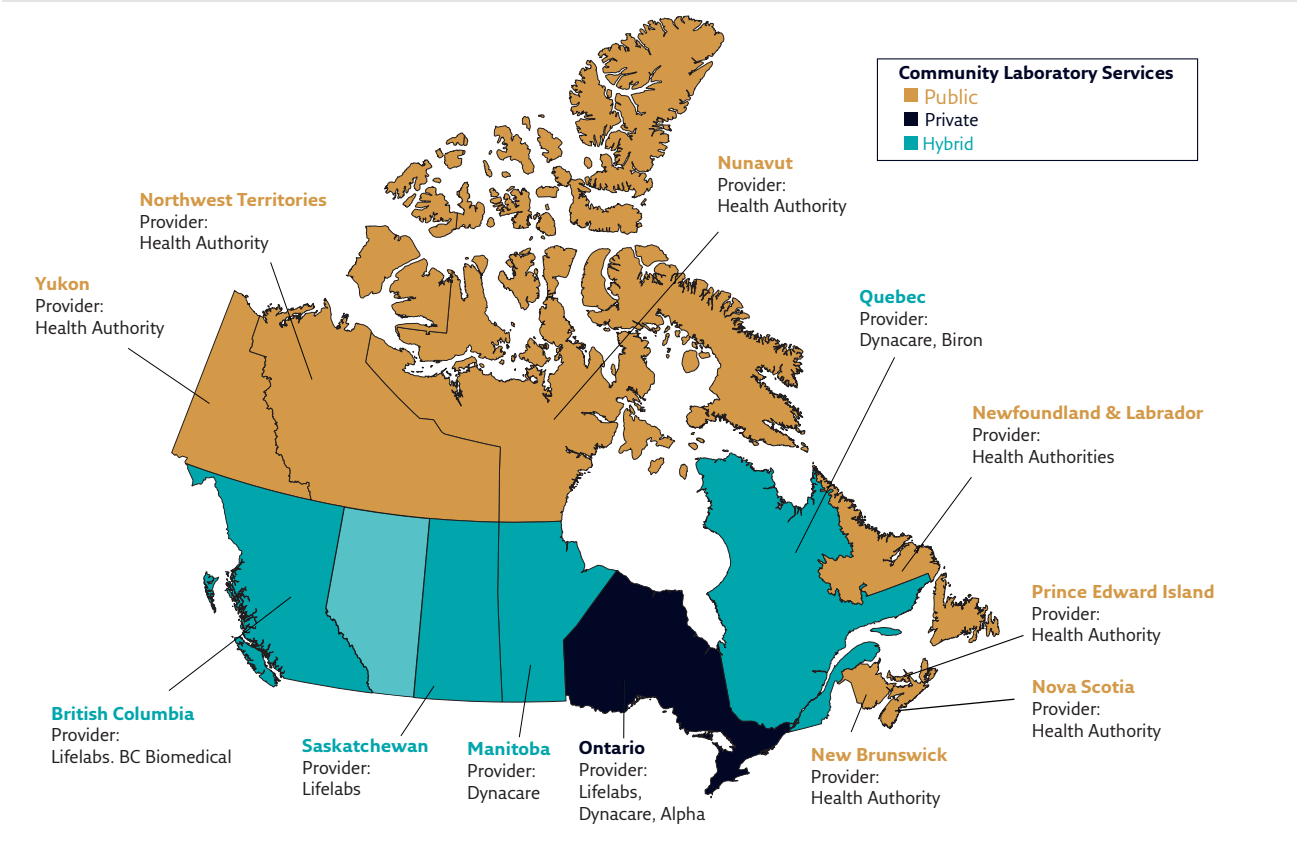
Community laboratory services are provided through a combination of public and private laboratories.

A variety of factors—including geography, population density, and demographics—can influence which service delivery model is most appropriate. Each model presents distinct advantages and limitations, and it is ultimately up to each province or territory to determine the most suitable approach.

¹ Other medical laboratories, such as comprehensive or reference laboratories, deal with more complex or specialty testing and can be referred to by doctors or community laboratories.

Across Canada, half of the provinces use some form of the hybrid model. The exception being Ontario, which uses a fully private model. In contrast, the Atlantic provinces and territories use a purely public model. The distribution of service delivery models is shown below.

Service Delivery Models Across Canada



Before 2019, Alberta operated under a hybrid model for community laboratory services. When services were outsourced to DynaLIFE, Alberta moved to a private delivery model. In August 2023, Alberta Precision Labs (APL) became the sole provider for community laboratory services, resulting in a fully funded public model.

Delivery of Laboratory Services in Alberta

Prior to 2019, AHS was responsible for providing community laboratory services across the province through a hybrid model. Its wholly owned subsidiary, APL, managed community laboratory services in the Central, Calgary, and South Zones, and provided comprehensive diagnostic services provincially, including within hospitals. In contrast, community laboratory services in the North and Edmonton Zones were delivered by DynaLIFE, a private corporation contracted by AHS.

Prior to 2020, Alberta’s community laboratory services had a combined annual budget of just under \$800 million. Approximately 6,500 Albertans worked in the sector, with 212 community laboratory collection sites and 133 laboratories in operation.

Each year, about 80 million laboratory tests are performed, serving 2.3 million Albertans—more than two-thirds of whom accessed services through community laboratories.

In Alberta’s community laboratory services delivery model, AHS is responsible for the day-to-day operations of medical laboratories. Oversight of all diagnostic services—including laboratory services—is provided by the Minister of Health. The Department of Health sets policies, establishes strategic directions for laboratory services, and manages funding.

Examination Work—Findings

Introduction to Findings

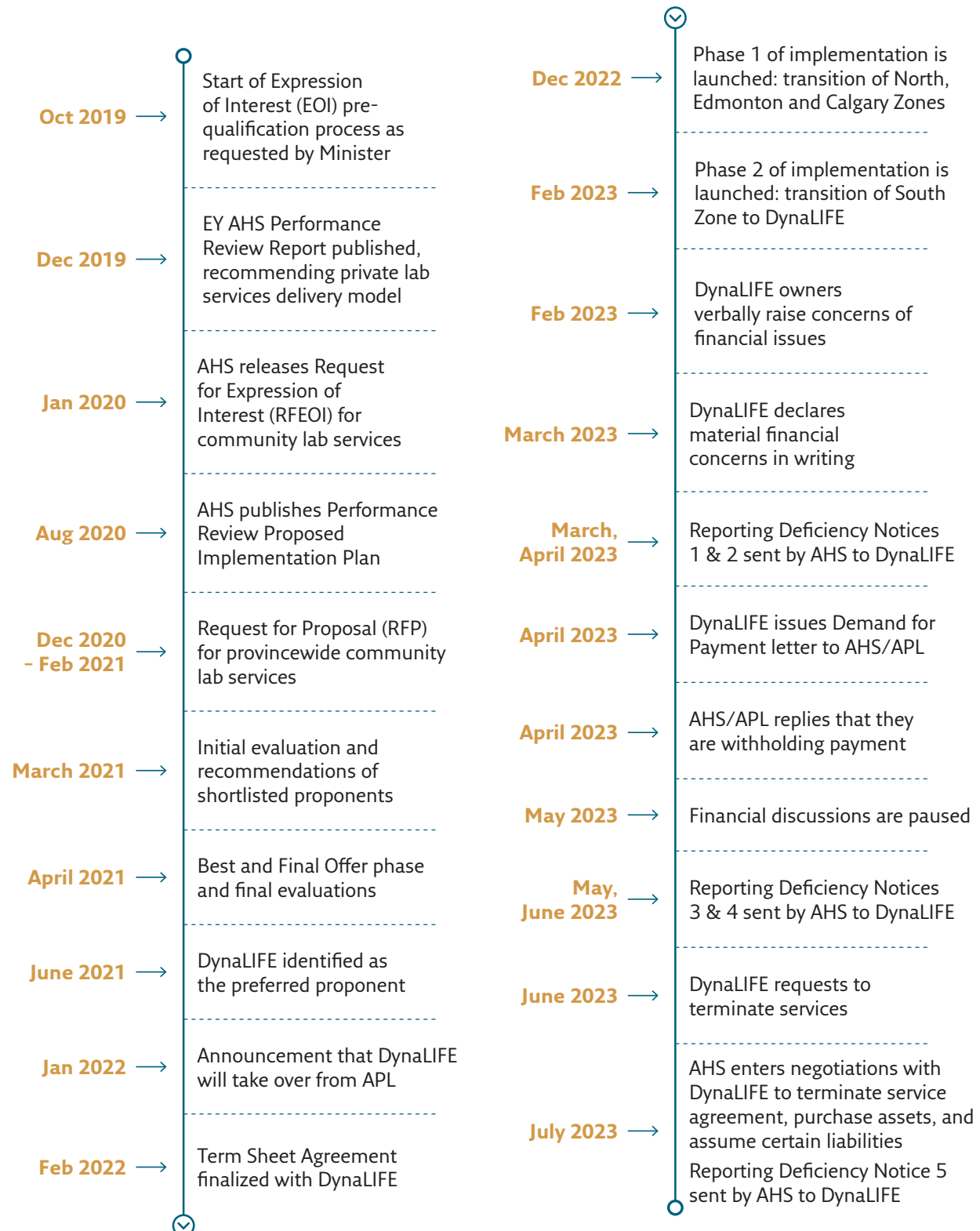
As outlined at the beginning of this report, our examination spans the full lifecycle of AHS’s contract with DynaLIFE—from the initial decision to outsource in 2019 to its early termination in 2023. In the sections that follow, we present our findings in the following areas:

- **Governance and Accountability**
Were governance structures in place and followed to ensure accountability, transparency, and strategic alignment?
- **Procurement Initiation**
Was sufficient analysis or a business case completed prior to outsourcing community laboratory services?
- **Request for Proposal**
Was a well designed and operating Request for Proposal (RFP) process used to ensure a fair, competitive, and transparent provider selection?
- **Due Diligence**
Was sufficient due diligence conducted to assess the financial and operational capabilities of the provider prior to selection?
- **Negotiation**
Were negotiations used to manage risks and ensure clear, binding service terms?
- **Transition and Contract Monitoring**
Was an appropriate transition plan in place and effectively implemented? Did AHS effectively monitor the performance of outsourced community laboratory services? How did AHS respond to situations where performance expectations were not met?
- **Termination**
What were the circumstances that led to early termination? Was the termination carried out in accordance with contract terms and conditions?
- **Cost to Alberta Taxpayers**
What non-valued added costs were associated with this most recent community laboratory services procurement and its early termination? What non-value-added costs have been incurred since the last attempted procurement in 2013?

Timelines and Key Events

The timeline below summarizes the key events related to the AHS procurement and outsourcing process.

2019-23 | Outsourcing to DynaLIFE



Governance and Accountability—Findings

Context

Note to Reader: The context provided below is based on the legislation and accountability frameworks that were in place at the time of the activities being examined.

The Minister of Health, the Department of Health, and AHS each have important responsibilities and accountabilities to ensure Alberta has a high functioning healthcare system.

Roles and Responsibilities

The Alberta government and the Minister of Health are ultimately responsible for the delivery of health care in Alberta. The Department of Health sets policy and standards for the health system in Alberta.

AHS is a provincial health authority responsible for delivering health services to Albertans and is a corporate body governed by a Board of Directors or an Official Administrator. AHS is responsible for the business and operations under its purview.

Governance

Governance is foundational in government or any large organization. It provides strategic direction, oversees risk management, identifies opportunities for improvement, and ensures leadership accountability.

The governance structure, role, and responsibilities of AHS are articulated in the *Regional Health Authorities Act*, and in a mandate and roles document required under the *Alberta Public Agencies Governance Act*.

The Minister of Health appoints, and can remove, members of the AHS Board. The AHS Board is responsible for overseeing the management of AHS, while the AHS CEO is responsible for supervising its business and operations.

The AHS Board Chair and AHS CEO are also expected to work in coordination with the Department of Health: the AHS Board Chair primarily through the Minister of Health, and the AHS CEO primarily through the Deputy Minister of Health.

Accountability

AHS was established at arm's length from government and operated with a degree of autonomy to fulfill their mandate to the responsible Minister and to Albertans. This autonomy enables AHS to make strategic and operational decisions within the scope of their responsibilities.

The AHS Board is accountable to the Minister of Health and is responsible for ensuring that it carries out its responsibilities in compliance with relevant government policies, ministerial directives, its budget, board bylaws, and legal and regulatory requirements.

The AHS CEO is accountable to the AHS Board for providing leadership and managing AHS, including overseeing the administration of all its operations and programs.

Laboratory Services

A key area of AHS operational responsibility is providing a comprehensive range of laboratory services in Alberta, including community laboratory services across the province. Under oversight of AHS, Alberta Precision Laboratories (APL), is the provider of all community laboratory services operations in Alberta, including those formerly offered by DynaLIFE.

APL is a wholly owned subsidiary of AHS. It is accountable to AHS and reports to the AHS President and CEO through its Board Chair, a role held by an AHS Vice-President. Functionally, APL is integrated into AHS operations, following AHS corporate and operational policies. Its leadership, operations, and strategic priorities are shaped by AHS internal governance.

Direction from Minister and Department of Health

While AHS makes most of the decisions for its day-to-day delivery of health care in Alberta, there are circumstances where direction is provided by the Minister and Department of Health on specific actions to take or avoid. Under legislation, the Minister of Health retains broad and overarching authority over the healthcare system, and this includes AHS operations.

These directions can take a variety of forms—ranging from informal (such as direction provided in meetings, emails, and phone conversations), to formal (ministerial directives²), to legally binding (ministerial orders³). The nature and extent of these directions, and how they are given, can potentially obscure lines of decision-making and accountability. When informal directions—and the responses to them—are not properly documented, it can lead to lack of clarity, lack of accountability, and improper mitigation of risks.

Findings

- Minister and Department of Health involvement in AHS operational matters undermined the integrity of the governance framework and compromised organizational autonomy.
- Evidence demonstrated that the Minister and the Department of Health expected AHS to proceed with community laboratory services outsourcing even as concerns about cost savings, COVID-19 pressures, and only having one proponent were raised by AHS.
- Minimal records were kept of important discussions between AHS executives, the Minister and the Department of Health—including those where key decisions were made.
- The AHS Board was not directly involved in the strategic decision to outsource community laboratory services. However, AHS management kept the Board informed and the Board provided guidance and approvals during key stages of the procurement process.
- AHS staff reported feeling discouraged from voicing concerns with the department due to fear of repercussions which strained relationships between AHS and the Department of Health.

Minister and Department of Health involvement in AHS operational matters undermined the integrity of the governance framework and compromised organizational autonomy.

Based on legislation and the governance framework in place, AHS typically makes independent, day-to-day operational decisions about delivering health services, including decisions related to contracting those services. However, this does not preclude AHS from communicating, consulting, and coordinating with the Minister and the Department of Health, especially in areas of high impact, high cost, or sensitivity—such as the outsourcing of community laboratory services.

² A ministerial directive outlines the direction and policies that a Minister wants organizations under that ministry to follow. Ministerial directives are used to provide specific instructions or guidance to agencies or departments within government.

³ A ministerial order is a legal document issued by a minister to implement policies, regulations, or decisions without requiring approval from cabinet. Ministerial orders are issued under the authority granted to ministers by legislation. These are issued for a variety of reasons including program delivery and appointing members to committees.

Throughout our examination, we found instances where AHS was directed by the Minister and Department of Health to take certain operational actions. We also identified instances when it was unclear who the decision-maker was, how risks and concerns were communicated and responded to, and what expectations existed between AHS, the Minister, and the Department of Health.

Through our examination of correspondence and multiple interviews, we found evidence that AHS was not the primary decision-maker in the outsourcing of community laboratory services during key stages of the procurement process. For example:

- The Minister of Health, through a communication from the Department of Health, instructed AHS to initiate an expression of interest to identify potential providers for private delivery of community laboratory services.
- The Minister of Health instructed the Department of Health to commission a third-party performance review of AHS operations to identify opportunities for cost savings. AHS Board and management did not initiate the review but did co-operate with the review.
- AHS was instructed by the Minister of Health to prepare an implementation plan for all recommendations from the performance review, including outsourcing of community laboratory services across the province.
- AHS sought confirmation from the Minister of Health in June 2020 on the scope and the decision to proceed with the RFP to outsource community laboratory services. At that time, AHS highlighted risks, including proceeding with the RFP during COVID-19 and that the initial saving estimates noted in the performance review were overstated.
- At various points throughout the procurement, evidence demonstrated that AHS was responding to operational questions from the Department of Health regarding the structure of the RFP, cost savings, the use of third-party experts, and the impact on unionized laboratory staff.

The Minister of Health did not issue any ministerial directives or orders to AHS for the procurement of community laboratory services. Evidence demonstrated that directions were provided through various communication channels, including letters, emails, and conversations between AHS, the Minister and Department of Health.

Evidence demonstrated that the Minister and the Department of Health expected AHS to proceed with community laboratory services outsourcing even as concerns about cost savings, COVID-19 pressures, and only having one proponent were raised by AHS.

At key points throughout the community laboratory services procurement, evidence demonstrated that AHS received direction from the Minister and Department of Health to proceed without delay or cancellation—even as the following concerns and risks emerged:

- **COVID-19 impacts on the health system:** Once the first case of COVID-19 in Alberta was confirmed in March 2020, the health system, and especially laboratory services, came under increasing pressure and uncertainty. AHS played a pivotal role in responding to the pandemic, and laboratory services were running at and above capacity from 2020 to 2022.

We examined evidence that demonstrates AHS management raised concerns with the Minister and Department of Health on multiple occasions about proceeding with the outsourcing of community laboratory services during such a vulnerable time for the health system. However, AHS was still expected by the Minister and Department of Health to proceed with the procurement.

- **Lack of savings and inability to meet contract obligations:** We also found that AHS management expressed concern about proceeding with only one proponent—DynaLIFE—and questioned its ability to meet contractual obligations at its proposed price.

Internal analysis conducted by AHS, which we examined, showed minimal to no cost savings from outsourcing community laboratories at the proposed price. And, given the operational complexity and uncertainty of the transition, AHS raised concerns about proceeding with the RFP. Despite these concerns, evidence shows that the Minister of Health acknowledged the limited savings but directed AHS to proceed with the RFP as soon as possible.

- **Only one proponent emerged from the RFP:** At the end of the RFP process, two successful proponents were identified. However, Sonic Healthcare, an Australian-based company, withdrew citing challenges related to travel restrictions during the COVID-19 pandemic, which impeded their ability to visit Alberta and conduct adequate due diligence.

Evidence demonstrated that AHS management raised concerns about proceeding with only one proponent (DynaLIFE), but the Minister and Department of Health expected AHS to continue with the next steps in the procurement process. We saw evidence that the option to terminate the RFP was removed from a briefing document to the Minister of Health following communication with the Department of Health.

Minimal records were kept of important discussions between AHS executives, the Minister, and the Department of Health—including those where key decisions were made.

Our examination found limited documentation of communications between AHS and the Minister of Health and/or the Department of Health—specifically regarding discussions held, concerns raised, and direction provided. Some documentation may exist in correspondence involving the Minister and Department of Health that was not made available to us.

In addition, within AHS, documentation of key decisions, concerns, and directions was limited—despite the scale and impact of the procurement, where comprehensive records would typically be expected.

Although AHS has a contract management system intended for tracking procurements and related documentation, it was not used for this procurement. As a result, evidence showed that many relevant documents were dispersed among multiple sources, increasing the risk of missing or misplaced documents. We enquired why the system was not used, but AHS management provided no reason.

The AHS Board was not directly involved in the strategic decision to outsource community laboratory services. However, AHS management kept the Board informed and the Board provided guidance and approvals during key stages of the procurement process.

Based on our review of AHS Board committee minutes and interviews with former AHS CEOs and AHS Board chairs, evidence demonstrated that AHS management was regularly informing the AHS Board about the status of the community laboratory services outsourcing procurement. We found evidence of discussions about risks, and that the AHS Board provided guidance and direction, as needed. The AHS Board also approved the contract based on its dollar value.

However, based on evidence examined, the AHS Board and AHS management were not the decision-makers in initiating or proceeding with the outsourcing of community laboratory services. The Minister and Department of Health expected the outsourcing of community laboratories to proceed. We did not see evidence of an analysis demonstrating outsourcing was the best alternative to deliver laboratory services in the province.

Our examination also determined that the Minister of Health was meeting frequently with the AHS CEO directly, and without AHS Board Chair or Board involvement.

AHS staff reported feeling discouraged from voicing concerns with the department due to fear of repercussions which strained relationships between AHS and the Department of Health.

Through our interviews, including those conducted under oath, AHS staff indicated apprehension about raising concerns, citing fear of potential repercussions or being perceived as disruptive. This sentiment was especially evident in staff interactions with the Department of Health management, where staff felt their input was either discouraged or not meaningfully acknowledged. As a result, we heard that a culture of silence had developed—where frontline insights, which are often critical to improving operations, were not consistently brought forward.

Procurement Initiation—Findings

Context

In May 2019, at the direction of the Minister of Health, the Department of Health engaged a third party (Ernst & Young) to conduct a performance review of AHS. The stated objective of the review was to determine how healthcare dollars were being spent and to provide recommendations for achieving long-term sustainability of the healthcare system—specifically, by identifying potential cost savings without compromising quality of care.

We saw evidence that in October 2019, AHS received direction from the Minister of Health, through the Department of Health, to “preserve the role of the private sector” in laboratory services. AHS was instructed to commence an expression of interest to pre-qualify interested and capable parties for a planned procurement process for private delivery of community laboratory services. The direction also instructed AHS to proceed immediately and to provide regular briefings to the Department of Health.

In December 2019, the Ernst & Young performance review of AHS (EY report) was submitted to the Department of Health, and in February 2020, the EY report was publicly released. The EY report outlined 72 potential cost savings initiatives for AHS. Laboratory services was one of the many areas reviewed, including a recommendation for AHS to “further leverage private contracts for the provision of laboratories services across Alberta,” with “an initial focus on community-based testing.”

Following the public release of the EY report, the Minister and the Department of Health directed AHS to prepare an implementation plan for the 52 recommendations made in the review. This included a plan to move forward with the recommendation to outsource community-based laboratory services. AHS completed its implementation planning for all 52 recommendations in August 2020, and in October 2020, received further direction from the Minister of Health to proceed with outsourcing of community-based laboratory services.

Findings

- The Minister and the Department of Health directed AHS to implement a plan for private delivery of community laboratory services across Alberta.
- Neither AHS, nor the Department of Health, followed its own processes to prepare a business case for outsourcing community laboratory services.
- Although cost savings was the primary objective for outsourcing community laboratory services, calculation errors and subsequent financial analysis indicated most of the estimated forecasted savings may not be realized.

The Minister and the Department of Health directed AHS to implement a plan for private delivery of community laboratory services across Alberta.

The performance review of AHS (EY report) and the subsequent decision to pursue outsourcing of community laboratories was at the direction of the Minister of Health. AHS Board and management—who are responsible for overseeing and delivering community laboratory services in Alberta—were not the decision-makers in this process.

Through our interviews and review of correspondence involving AHS management and the AHS Board, we determined that both were receptive to an external review that could potentially support improved performance of community laboratory services. However, we also heard in our interviews that AHS management believed they had robust internal processes and metrics to identify where cost efficiencies and improvements could be made. Outsourcing community laboratories across the province was not something AHS had independently identified as a strategic decision.

Evidence demonstrated that both the AHS Board and AHS management understood that, in alignment with the cost-saving recommendations outlined in the EY report, AHS was expected to initiate the outsourcing of community laboratory services.

Neither AHS, nor the Department of Health, followed its own processes to prepare a business case for outsourcing community laboratory services.

Given the importance of procurement in government, the Government of Alberta created the Procurement Accountability Framework, which provides both mandatory and optional guidance for government entities, including AHS. This framework requires that procurement decisions be well-supported—most commonly through the development of a business case.

A business case justifies a project or procurement by evaluating strategic fit, costs, benefits, and risks. Under the Procurement Accountability Framework, it must include:

- a clear statement of need and expected outcomes
- analysis of alternatives, including market research and cost/risk assessments
- a summary of the recommended option and rationale
- a procurement plan with performance measures and evaluation criteria
- financial analysis and budget
- risk identification and mitigation strategies

Developing a business case—or an equivalent document with key components—is considered best practice in procurement. It provides a structured, evidence-based rationale for proceeding, ensuring alignment with strategic goals and value for money. By evaluating alternatives, assessing risks, and justifying the preferred option, it supports transparency, accountability, and effective resource use. Documenting analysis, stakeholder input, and approvals also strengthens governance, enabling oversight and informed decision-making throughout the procurement lifecycle.

We found no evidence that either AHS or the Department of Health developed a business case prior to initiating the procurement process for community laboratory services. Information required under the Procurement Accountability Framework to support the decision-making process, such as an analysis of alternatives, procurement plan, and financial analysis, was not completed. We also saw no evidence the Minister or Department of Health expected AHS to prepare a business case to support the decision to proceed with the procurement.

Evidence demonstrated that AHS management viewed the EY report as the business case for outsourcing community laboratory services. Given the accompanying direction from the Minister of Health to proceed, AHS management indicated that a separate, substantive business case was not considered necessary, as the decision to outsource had already been made.

However, the EY report provided only high-level analysis and included disclaimers stating it was intended to support departmental decision-making. A formal business case to justify outsourcing community laboratories was never developed.

We did not see evidence that AHS management or the Department of Health considered the following at this stage:

- prior reports prepared by HQCA⁴ including the 2017 Provincial Plan for Integrated Laboratory Services in Alberta
- historical performance of existing outsourced providers for community laboratory services
- detailed cost and volume analysis of community laboratory testing across Alberta
- differences in community laboratory services delivery models between Edmonton and Calgary

Although cost savings was the primary objective for outsourcing community laboratory services, calculation errors and subsequent financial analysis indicated most of the estimated forecasted savings may not be realized.

With no formal business case in place at the beginning of the procurement process, AHS management and the Department of Health relied on the EY report, including its financial analysis that estimated potential annual savings of \$102 million if community laboratory services were outsourced throughout Alberta. This figure set initial expectations for savings and for the rationale behind procurement decisions and subsequent negotiations.

AHS management questioned the EY report's estimated annual savings of \$102 million, noting that the figure appeared high relative to the total annual laboratory services budget of \$800 million. Since DynaLIFE already served nearly half the province, most savings would need to come from outsourcing in southern Alberta. Upon review, and following the release of the EY report, AHS identified a calculation error that reduced the estimated savings to \$77 million.

Later in 2020, as AHS management began working on its implementation plan to respond to the recommendations in the EY report, AHS and APL conducted further analysis of the community laboratory services contracting recommendation. AHS prepared initial financial analysis that found annual savings would be significantly lower—ranging from \$18 million to a maximum of \$36 million.

AHS management's preliminary analysis also included a scenario exploring the cost of APL delivering all community laboratory services across the province. This scenario showed similar savings—between \$18 million to \$36 million—and suggested that much of the projected savings attributed to contracting were likely the result of efficiencies gained from having a single organization delivering all services, rather than from outsourcing to a private provider.

Despite the indicators that the projected annual cost savings—the apparent primary rationale for the procurement—were overstated, the procurement proceeded at the direction of the Minister and the Department of Health.

⁴ Health Quality Alberta (formerly known as the Health Quality Council of Alberta) is an independent organization dedicated to improving the quality of health care across Alberta. Its mission is to promote patient safety, person-centred care, and overall health service quality. The organization operates separately from provincial health agencies and service delivery organizations, providing objective, evidence-based insights and recommendations to support system-wide improvement.

Request for Proposal—Findings

Context

Once a need to go to market has been clearly identified and supported by a robust process, the next step in the procurement process is issuing a Request for Proposal (RFP). The RFP serves as a formal invitation for potential vendors to submit proposals and is typically made available to all qualified suppliers. It outlines the specific goods or services required and includes:

- a detailed scope of work
- key components and technical specifications
- project goals
- budget expectations
- timelines and delivery schedules

To demonstrate value for money, governments generally use competitive procurement processes. For a process to be competitive, more than one proponent is necessary. If the underlying assumptions or circumstances change substantially, best practice is for the organization to reassess the associated risks and re-evaluate its procurement strategy. This may include withdrawing the RFP and either reissuing it at a later date or cancelling it altogether.

Findings

- The RFP document met the standards set out in AHS internal procurement policy and the Government of Alberta's Procurement Accountability Framework.
- The RFP was not re-evaluated despite significant risks, including the pressures of COVID-19 and the fact that only one proponent remained in the competitive process.

The RFP document met the standards set out in AHS internal procurement policy and the Government of Alberta's Procurement Accountability Framework.

Despite the absence of a business case outlining the rationale and support for the procurement, AHS publicly released an RFP for community laboratory services in December 2020. Vendors had until February 2021 to submit their proposals. Based on AHS's original timelines, vendor proposals would be evaluated and shortlisted by March 2021.

We examined AHS's RFP document and determined that the RFP was complete and met the standards for procurements detailed in AHS internal policies and procedures. We also found that the RFP aligned with the government's Procurement Accountability Framework.

AHS hired an independent third-party procurement expert⁵ to provide guidance and assist in evaluating the proposals received, while also demonstrating a high level of neutrality. This expertise was engaged following challenges during the attempted 2013 procurement for community laboratory services in North, Edmonton, and Central zones, when AHS was accused of a flawed process and conflict of interest by one of the proponents.

⁵ The Procurement Office specializes in public sector procurement, providing procurement professionals and purchasing institutions with comprehensive advisory, training and technology solutions, and legal services.

The third-party procurement expert provided guidance, strategic planning, and facilitated a significant portion of the RFP process for AHS—including reviewing proposals against technical and other requirements, shortlisting potential vendors, and facilitating initial meetings with shortlisted vendors. The expert also helped AHS develop a steering committee and evaluation teams for key areas of focus, including:

- corporate capabilities and design—including a specific sub-group focused on financial considerations
- governance
- information technology and data integration
- service transition, system design, and workforce optimization

Evidence demonstrated that the expert was instrumental in supporting the evaluation process and ensuring compliance with conflict-of-interest protocols.

In March 2021, AHS completed its evaluation of the five proposals received and shortlisted two proponents⁶—DynaLIFE and Sonic Healthcare. The remaining three proposals did not meet the RFP mandatory requirements.

AHS hosted a series of lengthy, detailed commercially confidential meetings with both DynaLIFE and Sonic Healthcare. Facilitated by the third-party expert, these meetings focused on key questions from both the AHS proposal evaluation teams and the proponents. The purpose was to clarify questions and share information to help proponents prepare updated and final proposals—often referred to as “Best and Final Offer.”⁷

The RFP was not re-evaluated despite significant risks, including the pressures of COVID-19 and the fact that only one proponent remained in the competitive process.

Sonic Healthcare withdrew from the procurement process shortly after these meetings. In their withdrawal letter, they cited an inability to conduct proper due diligence due to COVID-19 travel restrictions that prevented their personnel from being present in Alberta during the remaining RFP stages.

When Sonic Healthcare withdrew, DynaLIFE became the sole proponent—resulting in a situation that AHS had not anticipated. The third-party procurement expert indicated that AHS could still proceed with negotiations with DynaLIFE because DynaLIFE met the RFP mandatory requirements. However, AHS management raised concerns that negotiating with only one proponent would eliminate the competitive nature of the process and associated benefits of going to market.

At the same time, in early 2021, both AHS and APL were under significant pressure in responding to the COVID-19 pandemic. APL was already operating over capacity due to its critical role in COVID-19 testing, and its key staff—Chief Operating Officer and Chief Medical Laboratory Officer—had to divert attention from the pandemic response to support the procurement process. As noted earlier, the pandemic affected the ability of the two main proponents to respond to the RFP.

A common theme we heard throughout our interviews was concern about a procurement of this size—one of the largest ever undertaken by AHS—taking place during the unprecedented COVID-19 pandemic. These concerns were discussed in meetings with the Minister and Deputy Minister of Health at the time. However, AHS was still directed by the Minister of Health to proceed with the procurement.

As the sole remaining proponent, DynaLIFE submitted its final proposal on May 12, 2021. Subsequently, AHS identified DynaLIFE as the preferred proponent to provide community laboratory services in Alberta on June 11, 2021.⁸

⁶ A “proponent” refers to a person or company that submits a proposal or bid in response to a request for services or goods. They offer their ideas, plans, or solutions to fulfill what an organization needs.

⁷ In a procurement process, the term “Best and Final Offer” (BAFO) refers to a stage where shortlisted vendors are invited to submit their most competitive proposal—both in terms of pricing and terms—after initial evaluations or negotiations.

⁸ <https://www.albertahealthservices.ca/news/Page15945.aspx>

Due Diligence—Findings

Context

The Procurement Accountability Framework and AHS procurement policy identify due diligence as necessary throughout the procurement process. It is also considered best practice to perform sufficient due diligence before entering complex and high dollar-value contracts.

The objective of due diligence is to validate assumptions, conduct detailed financial analyses, complete risk assessments, and identify any gaps or unmet requirements. While led by the procuring organization, due diligence serves the interests of both parties by assessing the proponent's capacity, resources, and understanding of the required goods or services. Any critical deficiencies identified during this phase may warrant reconsideration or termination of negotiations.

Risk assessment is an essential part of due diligence that enables organizations to meet their objectives and serves as a necessary complement to large and complex procurements. A risk assessment involves identifying, assessing, and responding to potential events or situations that could negatively affect people, organizations, or projects. A key part of procurement involves continuously assessing risks to identify threats to the success of a procurement and minimize the most significant risks.

Findings

- AHS continued with the procurement despite knowing that the main objective of cost savings was likely unattainable.
- AHS did not evaluate the assumptions and accuracy of DynaLIFE's financial proposals.
- AHS risk assessments lacked depth and detail and were not updated as the procurement process progressed.

AHS continued with the procurement despite knowing that the main objective of cost savings was likely unattainable.

AHS began its due diligence shortly after announcing DynaLIFE as the preferred proponent. Due diligence focused on:

- financial estimates
- service delivery
- staffing transition
- information technology
- governance
- service transition

A critical aspect of AHS due diligence was evaluating DynaLIFE's financial estimates—particularly how those estimates translated into potential cost savings, which had been a key factor in the initial procurement decision.

To support this analysis, AHS engaged a specialized consultant to conduct an independent review of DynaLIFE's financial estimates. Together, AHS and the consultant determined that, even under the most optimistic assumptions, the costs under the proposed contract would be equivalent to current expenditures. This finding cast doubt on the projected savings—estimated at \$102 million annually in the EY report and between \$18 million and \$36 million by AHS—indicating that a primary objective of cost savings would not be achieved.

AHS management communicated this finding to its executive team, board of directors, Minister and Department of Health through briefing notes and the published AHS Performance Review Proposed Implementation Plan.⁹

Evidence gathered by under-oath interviews demonstrated that the Department of Health directed AHS to proceed with negotiations—despite the initiative failing to meet the core objectives of outsourcing, particularly in terms of projected cost savings.

AHS did not evaluate the assumptions and accuracy of DynaLIFE's financial proposals.

The RFP Strategy encompassed five stages:

- Stage 1: Mandatory submission requirements
- Stage 2: Technical evaluation
- Stage 3: Shortlisting and commercially confidential meetings
- Stage 4: Best and Final Offer and financial evaluation/due diligence
- Stage 5: Contract negotiations

AHS's RFP was designed in a way that the proposals would be evaluated based on the stages above with the goal to select shortlisted proponents. Once shortlisted, AHS planned to hold a round of detailed commercially confidential meetings with each of the proponents to share information and enable them to prepare updated final proposals—often referred to as Best and Final Offer. Multiple financial proposals are allowed at this stage of the procurement. Based on the evaluation of these final offers, AHS planned to select the preferred proponent and enter into negotiations to finalize a contract.

DynaLIFE's initial financial proposal did not demonstrate any cost savings, as previously noted. In response, AHS requested that DynaLIFE incorporate cost-saving measures in subsequent submissions. Between July 12 and November 15, 2021,¹⁰ DynaLIFE submitted four revised financial proposals. Although AHS consistently requested cost-saving improvements, it did not rigorously test the underlying assumptions in these proposals—particularly those related to DynaLIFE's capital capacity and cash flow such as facility and equipment upgrades. While assumptions regarding test volumes and pricing per test type aligned with AHS expectations and were mutually agreed upon, other critical financial assumptions including annual test volume increase or inflation rate remained insufficiently challenged.

DynaLIFE's final proposal introduced new components, including projected savings from innovation and infrastructure investments.¹¹ Many of these savings were contingent on support from AHS and the Department of Health. However, AHS did not conduct a thorough validation of these assumptions.

AHS also did not perform a sensitivity analysis¹² to evaluate the resilience of the proposed savings under changing market conditions.

⁹ <https://open.alberta.ca/dataset/e07fb93b-806f-4d91-bceb-640ea4ba5473/resource/c4890bfa-bc7c-48e2-8c95-e34c9c15f1da/download/health-ahs-review-implementation-plan-2020-08.pdf>

¹⁰ The dates of the revised proposals were July 12, July 20, October 30, and November 15.

¹¹ Innovation savings initiatives such as Home Collection Rationalization and Microbiology Centres of Excellence. Infrastructure investments such as a planned 26,000 sq. ft. expansion of level 2 diagnostic laboratory space.

¹² A sensitivity analysis is a common financial analysis that evaluates a financial plan or proposal by changing certain variables—for example, interest rates or the costs of key inputs—to see how it affects bottom-line numbers like projected income, revenue, or cost. Sensitivity analysis is important because it can predict how small changes impact the viability of a proposal and can often expose risks that are not obvious.

Our own sensitivity analysis, based on values from the AHS DynaLIFE agreement, revealed that small changes in input variables could have significant impacts. For instance, a five per cent increase in starting costs¹³ would reduce projected savings by more than half, while a 10 per cent increase would eliminate projected savings entirely. This underscores the importance of validating financial assumptions and conducting scenario testing during procurement evaluations.

DynaLIFE agreed to a third-party review of its financial statements. However, AHS did not complete the review due to time constraints associated with securing a new provincewide private service provider.

AHS risk assessments lacked depth and detail and were not updated as the procurement process progressed.

Evidence we examined demonstrated that AHS considered risks throughout the procurement process, including during key stages of due diligence and negotiation. However, these assessments lacked depth and detailed analysis. Briefings to the AHS Board and the Minister of Health referenced risk management and identified certain risks—such as cost savings and contract monitoring—but did not quantify them or thoroughly evaluate their likelihood or potential impact.

It was unclear how AHS determined risk ratings or why some risks were prioritized over others. While each identified risk included high-level mitigation strategies, AHS did not assign risk owners¹⁴ to oversee implementation, assess residual risk, or actively work to reduce negative outcomes. Additionally, risks were not reassessed as the procurement progressed through its phases and into the negotiation stage, resulting in outdated or inaccurate risk ratings. For example, the risk related to DynaLIFE's business sustainability and its ability to deliver services at the proposed price was initially rated as low and never re-evaluated—despite emerging concerns. This risk ultimately materialized in early 2023.

¹³ Starting costs are the initial expenses DynaLIFE paid to set up community laboratory services. Examples of DynaLIFE's starting costs were capital investments, lease costs, IT costs, overhead, and other operational costs.

¹⁴ A risk owner is the person or role within an organization who is responsible for managing a specific risk. This includes identifying the risk and understanding its potential impact, developing and implementing strategies to mitigate or respond to the risk, monitoring the risk over time, adjusting plans as needed, and reporting on the status of the risk to stakeholders.

Negotiation—Findings

Context

Complete and thorough negotiations are important to ensure that risks are managed, requirements are clearly defined, and all aspects of the goods or services are discussed in a legally binding manner.

For large, complex, billion-dollar contracts—like the community laboratory services contract—negotiations can be extraordinarily challenging. The procuring organization normally develops a negotiation mandate.¹⁵ It provides negotiators representing the buying organization with clear guidance on how to conduct negotiations and identify what situations or conditions might require breaking off or cancelling the process. Because negotiators represent the organization, it is critical that the negotiation mandate is approved by the highest levels of the organization—including its board or governance function.

Findings

- AHS management and the AHS Board did not complete or approve the negotiation plan, and the draft that was prepared remained incomplete.
- Responsibility for the pension plan of Alberta Precision Laboratories (APL) employees transferring to DynaLIFE remained unresolved during negotiations, which further reduced anticipated cost savings.
- The Alberta Labour Relations Board ruled that DynaLIFE must comply with existing collective agreements, resulting in higher costs.

AHS management and the AHS Board did not complete or approve the negotiation plan, and the draft that was prepared remained incomplete.

AHS management began drafting a negotiation plan in the spring of 2021. Based on our review of AHS executive team minutes, we found evidence of communication suggesting that AHS management aimed to complete the negotiation plan by October 31, 2021—however, AHS never finished the plan. During our interviews, we asked AHS management why the negotiation plan was neither completed nor formally approved. Although they did not offer a definitive explanation, they speculated that the urgency to finalize the contract may have contributed to the decision to abandon the negotiation plan.

The draft negotiation plan did not include what is commonly called the Best Alternative to a Negotiated Agreement.¹⁶ This requirement is critical in negotiations because it guides negotiators in recognizing when negotiations are failing and actions to take—including when to walk away.

The latest drafts we examined indicated that key negotiation areas—capital finance, service transition, and workforce—remained incomplete. Had AHS management completed the draft negotiation plan in these areas, it may have identified risks earlier. For example, the absence of detailed capital finance discussions left DynaLIFE's financial vulnerabilities unaddressed, and incomplete workforce negotiations left pension responsibilities and associated costs unclarified.

¹⁵ A negotiation mandate is a formal document or directive that outlines the scope, objectives, limits, and authority granted to a person or team involved in a negotiation process. It's commonly used in procurement, labour relations, international diplomacy, and corporate transactions.

¹⁶ The Best Alternative to a Negotiated Agreement (BATNA) is a concept from negotiation theory that refers to the most advantageous course of action a party can take if negotiations fail and no agreement is reached.

Responsibility for the pension plan of Alberta Precision Laboratories (APL) employees transferring to DynaLIFE remained unresolved during negotiations, which further reduced anticipated cost savings.

The RFP for community laboratory services stated that the successful proponent must “assume all unionized, non-unionized, and medical staff, on the same or similar terms and conditions as existed prior to transition.” It also referred to the two primary collective agreements¹⁷ that outline employee pension obligations.

Through due diligence and negotiation, AHS management and DynaLIFE held differing interpretations of the pension requirements. DynaLIFE excluded pension costs from its financial proposals. Although AHS management questioned this omission, DynaLIFE asserted that its Group RRSP plan would satisfy the requirements.

Internal briefings and correspondence with the AHS Board and the Department of Health show that AHS management consistently flagged pension responsibilities, associated costs, and staff expectations as key risks. Despite this, AHS management and DynaLIFE did not resolve pension arrangements for the 1,512 staff expected to transfer, even in the later stages of negotiation.

Ultimately, AHS management deferred pension discussions to DynaLIFE and the unions. AHS management’s internal risk assessment acknowledged that DynaLIFE joining the Local Authorities Pension Plan (LAPP) would increase the cost of its proposal—a cost that later materialized and would have been absorbed by AHS (approximately a \$2.5 million increase in annual costs) if the contract was not terminated.

The Alberta Labour Relations Board ruled that DynaLIFE must comply with existing collective agreements, resulting in higher costs.

DynaLIFE told the unions representing APL’s employees—HSAA and CUPE—that it was ineligible to be a LAPP employer because it was not a public-sector employer, and that LAPP is unsuitable for a private, for-profit employer. The unions disagreed with DynaLIFE’s position and rejected its offer to transfer employees to DynaLIFE’s group RRSP plan in place of the pension provisions in their collective agreements. As a result, pension requirements remained unresolved throughout the negotiation process.

AHS management and DynaLIFE amended the contract—signed by the AHS CEO and Chief Financial Officer within their delegated authority—to state that the pension requirement depended on the Alberta Labour Relations Board ruling on DynaLIFE’s application.

The amended contract specified that if the Alberta Labour Relations Board determined any of the transferred employees must remain in LAPP or a comparable pension plan, AHS would compensate DynaLIFE based on a pre-agreed formula to compensate DynaLIFE for the incremental pension costs (e.g., defined benefit vs. defined contribution).

In January 2023, DynaLIFE applied to the Alberta Labour Relations Board. The following month, the Alberta Labour Relations Board ruled that DynaLIFE was required to comply with the collective agreements, including LAPP obligations. AHS agreed to cover these pension costs, which were not included in its original savings estimates for outsourcing community laboratory services. As a result, the projected financial benefits of the contract were reduced by approximately \$45 million over the term of the contract.

AHS management told us during our interviews that the decision to absorb pension costs for APL transferred staff was based on the critical importance of laboratory services. To maintain continuity of patient care, AHS management sought to avoid disruptions that could result from financial instability at DynaLIFE.

¹⁷ The two collective agreements for employees of APL who would be transferred were those with the Health Sciences Association of Alberta (HSAA) and the Canadian Union of Public Employees (CUPE).

Transition and Contract Monitoring—Findings

Context

To ensure a seamless transition of complex services, the outgoing and incoming service providers must jointly plan the changeover, share critical information transparently, and actively manage and monitor the process to prevent service disruptions.

Most service contracts include clear performance measures. These measures assess key aspects of operational and financial performance, as well as customer satisfaction, to determine how well the service provider is meeting the goals of the original procurement. Performance measures help ensure accountability for results delivered for the money paid to the contractor.

In May 2022, AHS management and DynaLIFE signed a Transition Framework Agreement which stated: To be successful, the transition process must have proper regard for:

- the impact of the transition on clinical stakeholders and patient care; and
- the operational realities applicable to the parties, who are responsible for the operations of the provincewide laboratory system.

The Transition Framework Agreement required AHS management and DynaLIFE to work closely together throughout the transitional period and beyond. Transferring critical information and processes between parties is a crucial step to the successful transition of complex government contracts and to maintaining continuity in the delivery of essential healthcare services to Albertans.

Findings

- AHS management and DynaLIFE proceeded with the transition despite essential requirements—such as Lab Information System readiness—being incomplete.
- AHS management and DynaLIFE did not share key operational plans during the transition, which contributed to increased wait times and diagnostic errors.
- Performance issues—such as an above average number of errors in pathology results—compromised patients.
- AHS management progressively increased its oversight and intervention efforts in response to ongoing performance issues with DynaLIFE.
- Frequent changes to Alberta’s community laboratory services model created operational challenges and impacted staff engagement, without achieving sustained improvements.

AHS management and DynaLIFE proceeded with the transition despite essential requirements—such as Lab Information System readiness—being incomplete.

On May 30, 2022, DynaLIFE signed the contract to deliver community laboratory services. Valued at \$4.8 billion over 15 years, it was one of the largest contracts awarded by the province.

Part of the contract included an agreement to transition staff and services from APL to DynaLIFE using a phased approach. DynaLIFE began a three-step process to take over all community laboratory services on December 5, 2022.

Transition Phase	Target Date	Laboratory Services to DynaLIFE
Phase 1	December 5, 2022 (Completed)	- Calgary Zone - Central Zone - Remaining North & Edmonton Zone not already run by DynaLIFE
Phase 2	February 27, 2023 (Completed)	South Zone
Phase 3	September 25, 2023 (Not completed)	- Process consolidation - Testing of certain laboratory samples collected in hospitals in Calgary and Edmonton Zones

The Transition Framework Agreement included a mandatory “Go/No-Go” decision on or before September 1, 2022. This decision was to be based on whether DynaLIFE and AHS management had demonstrated compliance with 11 mandatory requirements outlined in the Transition Framework Agreement.

Three of the 11 essential requirements¹⁸—Diagnostic Scientific Centre lease extension, Connect Care integration, and Lab Information System readiness—were not met by September 1, 2022. However, AHS management and DynaLIFE proceeded with the transition based on a joint action plan, which they monitored through to the December 5, 2022, transition date. These three essential requirements contributed to significant issues in Calgary immediately after DynaLIFE took over.

¹⁸ The three requirements are:

- Lease Extension—Diagnostic Scientific Centre (DSC): Lease agreement executed for long-term lease and licensing agreement between AHS/Service Provider is in place enabling the transition and redevelopment of space by the Service Provider.
- Connect Care: cutover plan is established and validated for the transition of work from the North and Central Zones to the Base Laboratory.
- Lab Information System (LIS)—Calgary: LIS milestones and cutover plan established for the transition of work for the Calgary Zone.

AHS management and DynaLIFE did not share key operational plans during the transition, which contributed to increased wait times and diagnostic errors.

Despite the Transition Framework Agreement’s emphasis on operational readiness, AHS management and DynaLIFE did not ensure effective knowledge transfer, information sharing, or coordination. This contributed to service disruptions, including increased wait times and diagnostic errors.

Effective transition planning requires sharing day-to-day operational details. AHS and DynaLIFE did not ensure adequate knowledge transfer or joint planning. This limited DynaLIFE’s ability to prepare for service delivery and respond to major changes, such as the launch of Connect Care in Calgary. At the same time, AHS management did not have visibility into DynaLIFE’s plans for staffing shifts, site locations, appointment management, or clinical workflows.

On December 5, 2022—the first day of transition—DynaLIFE implemented changes to staffing and appointment bookings.

Within weeks of the transition, service disruptions emerged in Calgary, including reduced appointment access, long wait times, delayed test results, and diagnostic errors. By February 2023, wait times for community laboratory tests had increased from a few days to five weeks.

Internal AHS management briefings raised concerns about DynaLIFE’s ability to meet performance expectations. While the root causes were complex, many of the service disruptions were linked to operational issues. The Transition Agreement and the processes are designed to mitigate such issues.

Below, we highlight some significant areas that increased wait times in Calgary.

Operational Differences Between Edmonton and Calgary Zones
When DynaLIFE assumed responsibility for Calgary’s laboratory services, it promptly reduced the number of appointment slots, increased walk-in availability, and adjusted workflows to reflect practices in Edmonton, where walk-ins are standard. However, Calgary patients were more accustomed to scheduled appointments and did not quickly adapt to the change. This mismatch—including fewer scheduled appointments, underused walk-in slots, and workflows misaligned with patient expectations—led to longer wait times and growing frustration.
Post-COVID-19 Increase in Volume of Community Laboratory Tests
As the COVID-19 pandemic eased, patients began returning to their primary care providers—often after months or even years of delayed care. This surge created a backlog of laboratory test requisitions that far exceeded DynaLIFE’s projections, which were based on historical data provided by AHS. Before DynaLIFE took over, Calgary patients could access hospital-based laboratories when community demand was high. Under the new DynaLIFE contract, this option was removed. During the pandemic, AHS had already begun restricting walk-in access to hospital laboratories due to safety concerns, and this limitation was formalized in the contract with DynaLIFE. The combination of higher-than-expected demand and fewer available testing locations led to significantly longer wait times for laboratory services.

Staff Attrition Due to Transition and Staff Training Led to Staffing Shortages

Between December 2022 and February 2023, 1,512 APL employees were transitioned to DynaLIFE. While evidence shows that DynaLIFE took steps to support staff during the transition, the laboratory vacancy rate continued to rise. The vacancy rate was at 12.3 per cent between September to December 2022 and increased to 13.8 per cent between January to April 2023.

During our interviews under oath, APL employees expressed concerns about the transition to DynaLIFE, particularly regarding their pension.

In early 2023, a significant number of staff were also away for training on the Connect Care clinical information system, which was scheduled for rollout in May 2023 following delays caused by the COVID-19 pandemic.

These staffing shortages contributed to longer wait times for community laboratory services.

Performance issues—such as an above average number of errors in pathology results—compromised patients.

In health care, timely access to services is essential. Disease progression does not pause for system capacity constraints, and a prompt diagnosis is critical for timely treatment.

When DynaLIFE assumed responsibility for community laboratory operations in Calgary in December 2022, access services began to decline, including longer wait times for test results. For example, clinical test turnaround time in Calgary increased from 12 hours to 15.2 hours, histology test turnaround time rose from 108 hours to 153.4 hours, and microbiology test turnaround time went from one hour to 5.2 hours by the end of December 2022.

These delays affected many Albertans over the eight months between December 2022 and September 2023. While some experienced inconvenience, longer wait times for diagnostic results can increase the risk of delayed treatment in time-sensitive cases.

Following the transition, an unusually high number of errors were reported, including missed or incorrect diagnoses of serious conditions. In May 2023, APL was notified of 145 patient-impacting errors, compared to fewer than 25 in November 2022. For example, in the last three weeks of July 2023, APL and AHS identified four emerging issues related to logistics, affecting more than 600 patients who required sample recollection.

AHS and APL established patient safety protocols to identify and address issues—including those related to contractor performance. In response to growing concerns, DynaLIFE and AHS began developing remediation plans and implementing measures to monitor progress.

AHS management progressively increased its oversight and intervention efforts in response to ongoing performance issues with DynaLIFE.

In March 2023, AHS formally notified DynaLIFE—through official correspondence—of gaps in meeting its contractual obligations. To resolve these concerns, AHS management began meeting with DynaLIFE’s executive team, including its CEO, three times per week to monitor progress. DynaLIFE was required to submit formal mitigation strategies to address issues related to patient wait times, appointment availability, and test turnaround times. These strategies were requested through AHS’s contract management process, and regular oversight meetings were established to track implementation and outcomes.

AHS management and DynaLIFE also met to review key performance indicators¹⁹ (KPIs) and contractual accountabilities to ensure a consistent understanding of expectations. AHS management wanted DynaLIFE to meet the critical KPI requirements outlined in the contract for the following four areas:

1. Patient wait times
2. Clinical rural turnaround times (TAT²⁰) index
3. Histology TAT index
4. Time to third next available appointment²¹

In response, DynaLIFE improved its reporting on performance indicators throughout April and May 2023. DynaLIFE also recruited more staff, extended hours of operation, and added new locations in the Calgary Zone over the summer. DynaLIFE also began providing formal written reports to AHS management outlining the activities it was taking to resolve the identified issues.

Frequent changes to Alberta’s community laboratory services model created operational challenges and impacted staff engagement, without achieving sustained improvements.

Between December 2022 and February 2023, 1,512 APL employees were transferred to DynaLIFE. Less than a year later, in September 2023, those same employees—along with approximately 1,300 additional DynaLIFE staff—were transitioned back to APL.

Throughout our interviews, staff and leadership from AHS and APL consistently expressed concern over the repeated changes in the delivery model for community laboratory services. These ongoing shifts led to confusion and frustration across both organizations. Over the past decade, the government has implemented several different strategies aimed at improving community laboratory service delivery. However, the most recent initiative—the 2022 contract with DynaLIFE—has become the latest in a series of models that have not achieved their intended outcome.

We also heard in our interviews that this cycle of change without meaningful progress has eroded trust within AHS/APL leadership and placed considerable strain on frontline staff. We heard that employees continue to work within outdated technological environments and infrastructure, which hampers their ability to provide timely and accurate diagnostic services. Many laboratories still rely on legacy systems and aging equipment, making it increasingly difficult to meet the needs of patients and providers efficiently.

¹⁹ KPI is a quantifiable metric used to evaluate the success of an organization, employee, project, or process in meeting defined goals.

²⁰ Turnaround Time (TAT) is the total time taken from when a laboratory receives a specimen to when the test results are reported back to the requester.

²¹ Time to Third Next Available Appointment is a commonly used metric in healthcare access measurement. It refers to the number of calendar days between the date a patient requests an appointment and the third next available time slot for that appointment type with a provider.

Termination—Findings

Context

Contracts include provisions that govern termination to ensure all parties are protected. Early termination is typically subject to defined procedures, including minimum notice periods, and structured transition plans.

Findings

- As performance declined, DynaLIFE sought additional funding, but AHS required service improvements before approving further payments.
- DynaLIFE requested early termination of the contract.
- AHS management and DynaLIFE followed the transition-back agreement, and AHS stabilized laboratory operations after resuming control in September 2023.

As performance declined, DynaLIFE sought additional funding, but AHS required service improvements before approving further payments.

As the situation continued to deteriorate in the spring of 2023, DynaLIFE began submitting formal requests to AHS for extensions to KPI reporting deadlines, additional financial support, and a second amendment to the funding agreement. At this point, the AHS Official Administrator and DynaLIFE owners became directly involved in performance discussions and the development of improvement plans.

In May 2023, DynaLIFE informed the AHS CEO and the AHS Official Administrator that it had incurred costs beyond the scope of its contract to address service delays. DynaLIFE requested reimbursement for expenses related to mandatory overtime, expanded site operations, and equipment. It also indicated that, without additional funding and further amendment to the agreement, services would be reduced to minimum standards.²²

AHS formally rejected DynaLIFE's request for additional funding, citing a lack of contractual entitlement and insufficient service improvements—particularly in the Calgary Zone. AHS also noted that DynaLIFE had not conducted the due diligence required to identify these gaps.

DynaLIFE requested early termination of the contract.

On June 6, 2023, DynaLIFE's owners formally requested early termination of its contract, citing financial unsustainability. DynaLIFE referenced the contract's bankruptcy clause, stating that continued participation under the existing terms would lead to insolvency. Although DynaLIFE did not declare bankruptcy, the request placed AHS management in a position where it had to consider either terminating the contract or facing the risk of service disruption due to potential financial collapse.

Given that community laboratory services are an essential healthcare service,²³ interviewees told us that allowing DynaLIFE to enter bankruptcy was not considered a viable option. AHS management concluded that terminating the contract was the only feasible option.

²² The minimum standard level of service refers to the basic, agreed-upon level of service quality that DynaLIFE must deliver under a contract. It sets the lowest acceptable threshold such as only providing laboratory services during the core hours of operations and no overtime.

²³ Under Alberta's Labour Relations Code, essential services are defined as those whose interruption would endanger life, personal safety, or public health. <https://www.alberta.ca/labour-relations-legislation#jumplinks-1>

AHS management and DynaLIFE followed the transition-back agreement, and AHS stabilized laboratory operations after resuming control in September 2023.

AHS, APL, and DynaLIFE finalized an agreement in August 2023 to transfer all DynaLIFE services and staff back to APL in September 2023. The agreement included not just the Central, Calgary, and South Zones, which APL had administered until December 2022, but also the services for North and Edmonton Zones, which DynaLIFE had run for more than two decades.

Within 15 months of the community laboratory services agreement being signed and just over eight months after DynaLIFE began delivering services in Calgary and Central Zones, the \$4.8 billion agreement had been terminated completely.

As APL resumed operations in fall 2023, it started stabilizing the system by improving patient access. The priority was the Calgary Zone, where excessive patient wait times persisted.

In addition to the capacity added by DynaLIFE prior to the transition, APL efforts in the Calgary Zone focused on three areas:

1. Increasing overall capacity, including
 - opening hospital laboratories for community patients
 - adding mobile units with a net capacity for 12,920 additional patients per month
 - expanding services hours by 412 per month across all collection sites
2. Continually adding appointments to return to a more appointment-based service model that Calgary Zone patients were accustomed to
3. Enhancing pathology processing capacity and efficiency to reduce test result turnaround times and reduce errors

Per data from APL, patient wait times in Calgary Zone were reduced by 76 per cent by December 2023.²⁴

²⁴ Compared to peak wait times in May 2023.

Cost to Alberta Taxpayers—Findings

Context

Alberta has experienced more than a decade of major attempted changes to the delivery of community laboratory services. The 2022 DynaLIFE contract is the most recent in a series of large-scale procurements events since 2013. None of these initiatives achieved their intended goals, including cost savings. When procurements fail or are abandoned, even well-intentioned spending can result in no added value.

The full cost of large procurements is often overlooked and rarely reported. In addition to the \$4.8 billion, 15-year DynaLIFE contract, the costs of the procurement process itself—such as planning, administration, and transition—should be considered by government when evaluating value for money, informing policy decisions, and reporting transparently to Albertans.

In late 2023, Albertans expressed concern about the costs of the DynaLIFE agreement through letters and inquiries to our office. Our examination and the evidence we obtained consistently showed that, despite significant spending over the past 10–15 years, improvements in infrastructure, capacity, and patient service have not materialized.

The costs presented below focus on financial expenditures and do not include impacts on patients, staff, or Albertans' ability to access services.

Findings

- Between 2013 and 2023, Alberta taxpayers paid \$125 million in non-value-added costs for government-initiated laboratory procurements that were abandoned or unsuccessful. This includes:
 - › \$77 million for the outsourcing of community laboratory services (2019–2023)
 - › \$13 million for the outsourcing of community laboratory services for Northern Alberta and its subsequent cancellation (2013–2015)
 - › \$35 million for the procurement of the central hub lab construction and its subsequent cancellation (2015–2019)
- In addition, \$32 million was paid by AHS to acquire DynaLIFE's remaining assets and liabilities at fair value following the termination of its contract (2023).

We analyzed the costs associated with three major laboratory services procurements over the past 10 years. The purpose of this analysis was to determine the final costs borne by Alberta taxpayers for procurements that were either abandoned or failed to deliver value to the health care system.

Our analysis included payments to experts, consultants, legal advisors, and other third parties who supported the procurement process. We also accounted for internal costs, including salaries and wages for AHS and APL staff who collectively spent tens of thousands of hours on these procurement processes. However, AHS did not and does not directly track the costs it incurs for specific procurements.

Between 2013 and 2023, Alberta taxpayers paid \$125 million in non-value-added costs for government-initiated laboratory procurements that were abandoned or unsuccessful.

\$77 million for the outsourcing of community laboratory services (2019–2023)

The outsourcing of community laboratory services was justified based on estimated incremental cost²⁵ savings. We analyzed the incremental costs of the DynaLIFE community laboratory services procurement to the estimated cost of continuing the previous system. Our analysis found that the arrangement resulted in a net cost to Albertans of approximately \$61 million over its eight months of operation.

In August 2023, APL resumed full responsibility for delivering community laboratory services. We analyzed the costs associated with reintegrating these services back to APL, beginning in late summer 2023. We found these reintegration costs totalled \$16 million.

\$13 million for the outsourcing of community laboratory services for Northern Alberta and its subsequent cancellation (2013–2015)

Between 2013 and 2015, AHS attempted to procure community laboratory services for North, Edmonton, and Central Zones. At the time, DynaLIFE held existing contracts in North and Edmonton Zones that were set to expire in 2016. AHS issued an RFP, and Sonic Healthcare was selected as the successful bidder in 2015.

DynaLIFE appealed the decision. In June 2015, a review panel found that AHS had breached its duty of procedural fairness during the RFP process but did not recommend cancelling the RFP. However, the Minister of Health issued a Ministerial Directive cancelling the RFP and extending DynaLIFE's contract.

Our analysis found that the total indirect and incremental²⁶ costs for issuing, processing, and then cancelling the RFP amounted to \$13 million.

\$35 million for the procurement of the central hub lab construction and its subsequent cancellation (2015–2019)

In 2015, the Minister of Health commissioned a series of studies by the Health Quality Council of Alberta²⁷ on laboratory service delivery in Alberta. One key recommendation was to continue developing a “hub and spoke” model, including a state-of-the-art central hub laboratory in Edmonton to support the provincial laboratory system.

Construction of the hub laboratory began in 2018. However, it became a platform issue during the 2019 provincial election and was cancelled in June 2019.

We received costing information from Alberta Infrastructure and found that partial construction and subsequent remediation of the hub laboratory site cost \$35 million.

²⁵ Incremental costs refer to the additional costs incurred when choosing one option over another. In the context of 2019–2023 provincewide community laboratory services, it means the difference in cost between outsourcing community laboratory services to DynaLIFE versus continuing to operate them through Alberta Precision Laboratories.

²⁶ Incremental costs refer to the additional costs incurred when choosing one option over another.

²⁷ The Health Quality Council of Alberta is a wholly owned entity of government with a mandate to study, evaluate, and report on healthcare quality in the province.

Total costs of unsuccessful laboratory procurements

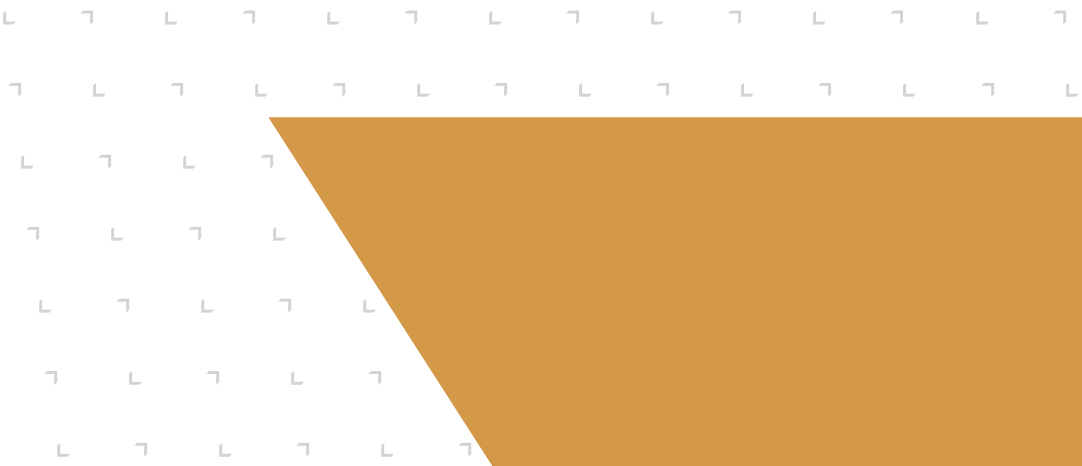
Between 2013 and 2023, Alberta taxpayers paid \$125 million in incremental costs for government-initiated laboratory procurements that were abandoned or unsuccessful.

Procurement	Incremental costs
2013–2015 Northern Alberta community laboratory services contracting	\$13 million
2015–2019 Hub laboratory site construction and remediation	\$35 million
2019–2023 Community laboratory services agreement	\$61 million
2023 Community laboratory services reintegration to APL	\$16 million
Total	\$125 million

In addition, \$32 million was paid by AHS to acquire DynaLIFE’s remaining assets and liabilities at fair value following the termination of its contract (2023).

In August 2023, following the termination of the DynaLIFE contract, AHS acquired DynaLIFE’s operations for \$32 million. This transaction was completed at fair value, based on the net value of assets received and liabilities assumed.

Assets acquired included cash, accounts receivable, capital assets, and inventories of supplies. Liabilities assumed included accounts payable, employee future benefits, and amounts due to AHS from DynaLIFE that were settled at the time of acquisition.



Appendices



Appendix A: Detailed Timeline of Historic Laboratory Outsourcing

2013-2015

Issuing Then Cancelling the RFP for Edmonton, North, and Central Alberta Lab Services

- April 2013 to April 2014—AHS initiated a procurement for lab services starting with a request for expression of interest (RFEOI), and later, a request for proposal (RFP) for Edmonton and the North and South Zones.
- October 2014—The contract was awarded to Sonic Healthcare, a lab services company in Australia.
- November 2014—DynaLIFE, which held the contract prior to the RFP, appealed the award decision on the basis of flaws in the RFP. An appeal panel was formed, and a formal appeal process began to review the RFP and the award decision.
- May 2015—A provincial election took place.
- August 2015—A ministerial directive was²⁸ issued, cancelling the RFP and the award decision. At the same time, the formal appeal process was completed, and the panel released a report on its findings. The panel ultimately concluded that cancelling and reissuing of the RFP was not necessary.
- October 2015—DynaLIFE's existing contract was extended.

2016-2019

Building the Edmonton Hub Lab site and Then Cancelling Construction

- May 2016—The Minister of Health requested the Health Quality Council of Alberta (HQCA) complete lab service transformation planning. HQCA published two reports recommending a public laboratory system, using a hub and spoke model.²⁹
- August 2017—The business case for the Edmonton Hub Lab was approved and the project was publicly announced.
- May 2018—Construction of the Edmonton Hub Lab began.
- July 2018—Alberta Public Labs (APL), a government organization, was formed to deliver all laboratory services in Alberta.
- April 2019—A provincial election took place.
- June 2019—The cancellation of the Edmonton Hub Lab was announced, and work began to return the site to a grassy field.

²⁸ A ministerial directive is an official instruction issued by a government minister to guide the actions of public officials or agencies in implementing policies or laws.

²⁹ The hub and spoke laboratory model is a network structure where a central "hub" laboratory manages and coordinates testing, while smaller "spoke" laboratories handles collections.

2019–2023

Outsourcing Community Lab Services to DynaLIFE

2019

- October 2019—The Minister of Health requested that AHS begin the pre-qualification process for the outsourcing of community labs.
- December 2019—The Ernst & Young (EY) AHS Performance Review Report was published, recommending a private lab services delivery model.

2020

- January 2020—AHS releases a request for expression of interest (RFEOI) for community lab services and begins to survey the market.
- December 2020 to February 2021—A request for proposal (RFP) for provincewide community lab services was released, and AHS began receiving submissions.

2021

- March 2021—The initial evaluations are completed, and recommendations of shortlisted proponents are made.
- April 2021—The Best and Final Offer (BAFO) phase began, and final submissions were provided by shortlisted proponents.
- May 2021—Sonic Healthcare withdrew from the process prior to submitting a final BAFO due to the COVID-19 travel restrictions imposed by Australia. This left DynaLIFE as the sole proponent, and AHS began negotiating.

2022

- January 2022—AHS announced that DynaLIFE will be taking over community lab services from APL.
- February 2022—The term sheet agreement³⁰ between AHS and DynaLIFE is finalized.
- December 2022—Phase 1 of implementation was launched, which included the transition of North, Edmonton and Calgary Zones from APL to DynaLIFE. Immediately after the Phase 1 transition, the Calgary Zone experienced an increase in wait times.

2023

- February 2023—Phase 2 of implementation was launched, which included the transition of the South Zone to DynaLIFE.
- February 2023—DynaLIFE owners verbally raised concerns of financial issues for the first time.
- March 2023—DynaLIFE owners declared material financial concerns in writing.
- April 2023—DynaLIFE issued a demand for payment letter to AHS/APL for outstanding services. AHS/APL replied that they are withholding payment.
- May 2023—All financial discussions are paused at the direction of AHS.
- May 2023 to June 2023—Multiple reporting deficiency notices were sent from AHS to DynaLIFE.
- June 2023—DynaLIFE owners requested termination of their community laboratory services contract with AHS. AHS entered into negotiations with DynaLIFE to terminate the service agreement, purchase DynaLIFE's assets, and assume its liabilities.

2023

Transferring Services to APL as the Provincial Community Lab Services Provider

- August 2023—The Alberta government announced its intention to transfer staff, equipment, and property in all zones back to APL.
- September 2023—The agreement between AHS and DynaLIFE to transfer services back to APL closed, and DynaLIFE lab services and employees are integrated into APL.

³⁰ A term sheet agreement is a document outlining the basic terms and conditions of a potential deal between parties, serving as a foundation for further negotiations and the creation of a formal contract.

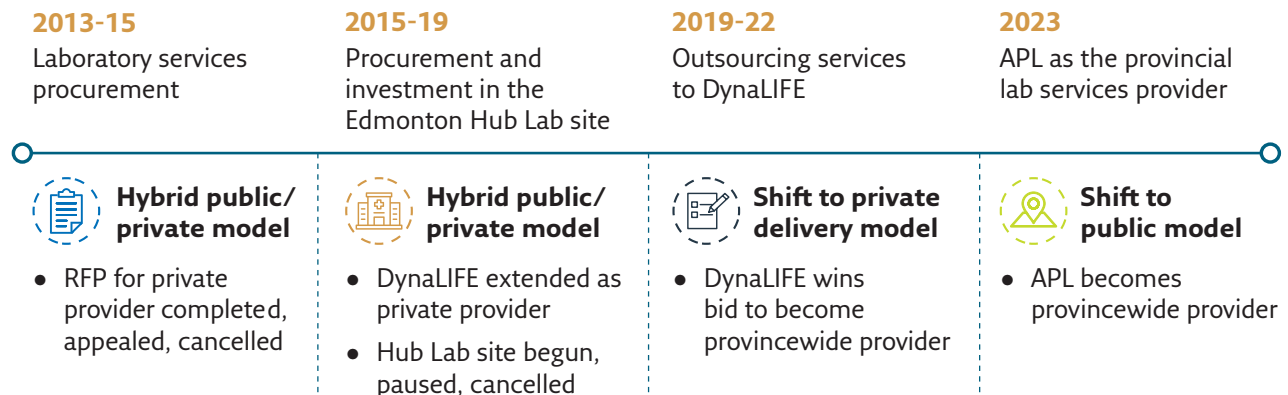
Appendix B: AHS/APL Agreements with DynaLIFE

The following table lists all the agreements between the above parties since January 2022.

Date	Agreement
January 14, 2022	Mutual Agreement to Extend Certain Deadlines under Transition Plan
April 6, 2022	Community Laboratory Services Term Sheet
May 30, 2022	IT Shared Services Agreement
May 30, 2022	Community Transition Services Agreement
May 30, 2022	Hospital Transition Services Agreement
May 30, 2022	Information Management Agreement
May 30, 2022	Asset Transfer Agreement
May 30, 2022	Transition Framework Agreement
May 30, 2022	Lab Services Agreement
January 5, 2023	Amended Lab Services Agreement
August 31, 2023	Asset Purchase Agreement (AHS/APL terminated the contract with DynaLIFE and purchased its assets)

Appendix C: History up to 2019 Procurement

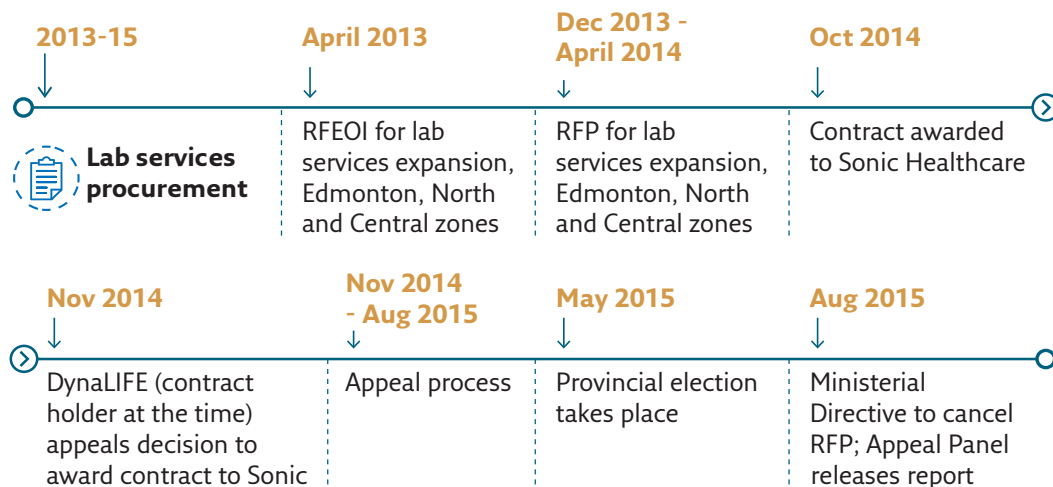
Events Since 2013



Timeline of significant events in Alberta's laboratory services

This examination focuses on the procurement of community laboratory services with DynaLIFE between 2019 and 2023. However, the procurements over the decade leading up to 2019 have several important similarities and provide a more complete picture of the community laboratory landscape in Alberta. More importantly, each of these procurements—none of which met their original goals—cost Alberta taxpayers millions of dollars.

2013-15 Laboratory Services Procurement



Timeline of events in 2013-15 laboratory services procurement

Prior to 2013, AHS undertook an exercise to determine the "optimum laboratory service delivery model to address the need for an efficient, high quality and fully leveraged capability for the longer term." This resulted in a finding that a "reconfigured model for laboratory services that includes further consolidation, tighter integration and single point accountability for quality and clinical governance is necessary to achieve long term sustainable system level change."

Four key drivers for change were identified:

- Quality and sustainability issues
- High demand for new, complex, expensive genomic and proteomic tests
- Limited investment capability
- Workforce deficits, particularly for pathologists

As a response to these drivers, AHS concluded that a hybrid "hub and spoke" model would best achieve their objectives, with hubs in Edmonton operated by a private provider and in Calgary through the existing Calgary Laboratory Services (a wholly owned subsidiary of AHS). Documentation outlines that immediate attention was directed towards the procurement of a laboratory service provider for northern Alberta, especially with the DynaLIFE contract set to expire in 2016.

The procurement process was initiated with AHS contracting a third-party consultant to complete a market assessment. The intent of this initiative was not only to understand various providers, and their service delivery models, but also to gather insights that would inform subsequent phases of the procurement process.

As part of this market research, AHS and the third-party consultant also conducted a high-level analysis projecting long-term growth and its impact on costs, which identified seven high-potential service providers. Findings from the market assessment were used in the development of a Request for Expressions of Interest (RFEOI) and the RFP.

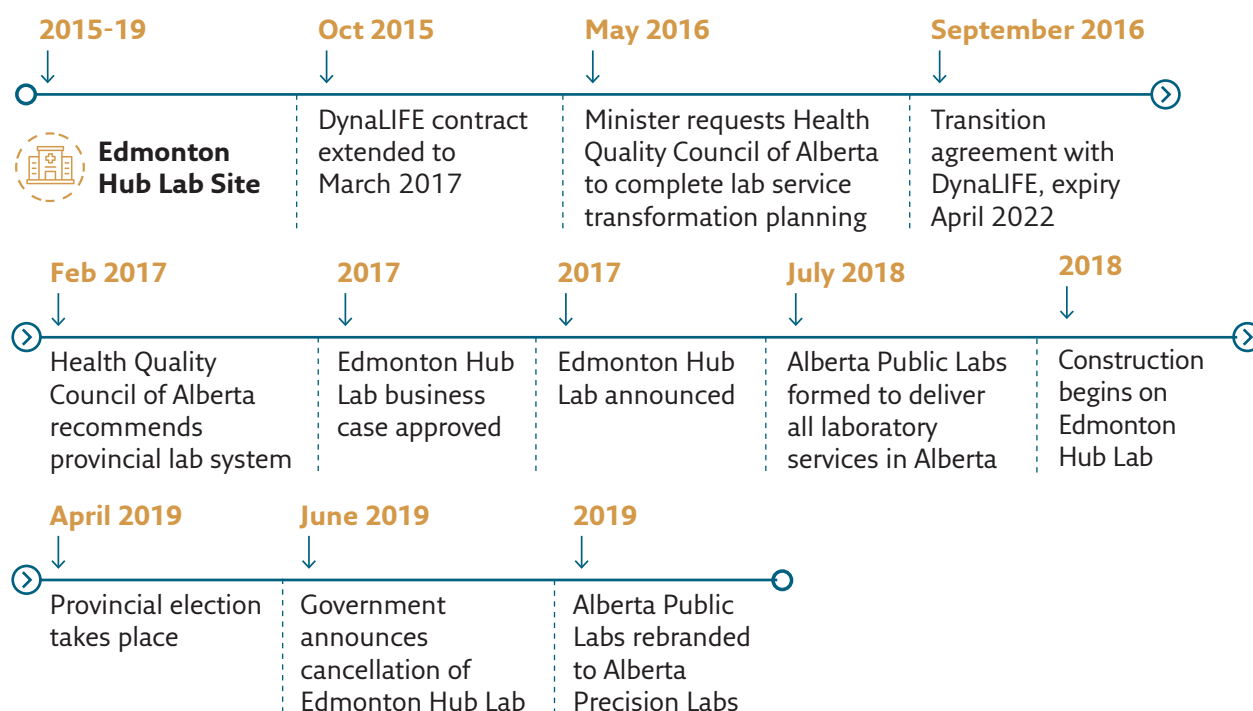
After completing the evaluation of the RFEOI, AHS issued a formal RFP, soliciting responses from prospective service providers for the provision of laboratory services to and for Edmonton, and potentially to all northern Alberta. The document emphasized centralization in a "state of the art" central hub, achieving world-class quality, sustainable cost reduction, technology innovation, and the development of research programs.

In April 2014, the RFP closed with submissions from DynaLIFE, Quest, Sonic Healthcare, and Mayo Medical Labs. After receiving submissions, DynaLIFE, Quest, and Sonic Healthcare were approved for evaluation, while Mayo Medical Labs was excluded for not meeting minimum requirements.

Sonic Healthcare emerged as the consensus, and the selection was publicly announced in October 2014. Shortly after, DynaLIFE submitted a Formal Vendor Bid Appeal. A Vendor Bid Appeal Panel was established, which determined that AHS breached its duty of procedural fairness in the RFP process in a substantive manner.

While the Appeal Panel was deliberating, Alberta held a general election in May 2015. In August 2015, the new Health Minister announced the cancellation of the RFP.

2015-19 Procurement and Investment in the Edmonton Hub Lab Site



Timeline of events in 2015-19 procurement and investment in the Edmonton Hub Lab site

In October 2015, following the DynaLIFE appeal and RFP cancellation, AHS extended DynaLIFE's contract to provide laboratory services in the North Zone by one year, to be effective 2016-17. In 2016, this was extended an additional five years, to be effective 2017-22. DynaLIFE remained the consistent laboratory services provider throughout the North Zone for community laboratory services during this period. Upon the expiry of this agreement in 2022, it was expected that laboratory services in the North Zone would no longer be provided by DynaLIFE. Rather, Alberta Public Laboratories would become the community laboratory service provider in these parts of the province in 2022.

In 2016, the Health Minister requested the Health Quality Council of Alberta (HQCA) to undertake a comprehensive review of the options for delivery of laboratory services.³¹ The HQCA recommended the creation of a single public sector platform for the delivery of laboratory services through an integrated provincial plan.

Following this report, a second HQCA report was commissioned: the 2017 "Provincial Plan for Integrated Laboratory Services in Alberta". It recommended the creation of an independent public agency with the mandate to deliver globally competitive, high-quality, integrated laboratory services across the province. It also supported the continuation of the tiered hub and spoke approach to service delivery, and the creation of a new Edmonton Hub Lab facility to support this. The recommendations of the HQCA report were acted on with the 2017 announcement of the Edmonton Hub Lab and the 2018 formation of Alberta Public Laboratories as a provincial, public laboratory service provider. It was formed as a wholly owned subsidiary of AHS.

Construction of the Edmonton Hub Lab began in 2018.

In April 2019, Alberta Infrastructure announced a pause on construction of the Edmonton Hub Lab, and in June 2019, the government announced its cancellation.

In 2019, Alberta Public Laboratories was rebranded as Alberta Precision Laboratories (APL) and restructured.

³¹ This assessment resulted in the "Moving Ahead on Transformation of Laboratory Services in Alberta" report.



**Auditor
General**
OF ALBERTA

oag.ab.ca

Contact us:

info@oag.ab.ca

780.427.4222

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